

Message Text

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ACTION XMB-07

INFO OCT-01 EUR-25 ADP-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 SS-15 NSC-10 L-03 PRS-01 RSR-01

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R 281736Z AUG 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3616

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TAGS: UK, UR, EFIN

SUBJECT: INTEREST RATES

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BEGIN SUMMARY. MOSCOW NARODNY OFFICIALS WOULD SPEAK ONLY IN GENERALITIES, SUGGESTED THAT EXIM SHARPEN ITS REQUEST FOR INFORMATION TO INCLUDE AMOUNT OF LOAN ENVISAGED AND SPECIFIC AGENCY OF SOVIET GOVERNMENT CONCERNED. EMBASSY ALSO CONSULTED AMERICAN BANKS ASSOCIATION LONDON (BANK OF AMERICA PROVIDED MUCH INFORMATION) AND CHASE MANHATTAN AND REPLIES INDICATE 5-YEAR EURODOLLAR LOAN TO SOVIET BANK FOR FOREIGN TRADE OR AGENCIES WITH EQUAL SEMIANNUAL REPAYMENTS OF PRINCIPAL WOULD COST FROM ONE-HALF TO 1-1/4 EURODOLLARS. U.S. AND BRITISH BANKS INDICATED LENDING WOULD NOT BE MADE TO AN AGENCY OF THE SOVIET GOVERNMENT DIRECTLY, BUT RATHER THROUGH BANK OF FOREIGN TRADE. MOSCOW NARODNY INDICATED LOAN COULD BE MADE DIRECTLY TO AN AGENCY. END SUMMARY.

1. AFTER CHECKING OTHER SOURCES, AND RECEIVING FRAGMENTARY INFORMATION, EMBASSY ON AUGUST 24 CALLED ON MESSRS.

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G. MAJOR, DEPUTY MANAGING DIRECTOR, AND K.D. RICHARDSON, INTERNATIONAL MANAGER, OF MOSCOW NARODNY BANK LTD. TO

DISCUSS POINTS RAISED IN REFTEL. MESSRS. MAJOR AND RICHARDSON EXPRESSED SOME RELUCTANCE TO DIRECTLY ANSWER THE QUESTIONS. THEY SAID RATE OR RATES ON EURODOLLAR LOANS WOULD DEPEND ON WHAT THE MARKET WOULD TAKE, SIZE OF THE LOAN INVOLVED, WHETHER OR NOT IT WOULD NEED TO BE SYNDICATED, AND WHICH SPECIFIC AGENCY OF THE SOVIET GOVERNMENT WAS THE OBLIGOR. THE FORM OF LENDING THEY ENVISAGED AND SAID WAS MOST COMMON WOULD BE A SIX-MONTH ROLL-OVER WHICH COULD BE MADE AT 1/2 TO 3/4 ABOVE THE SIX-MONTH LONDON INTERBANK RATE. THE MARGIN COULD BE SLIGHTLY LOWER THAN ONE-HALF. A FIVE-YEAR LOAN WITH SEMI-ANNUAL REPAYMENTS WOULD PROBABLY PUSH UP THE EFFECTIVE LENDING RATE. THEY STRESSED THAT MOSCOW NARODNY WOULD GIVE SOVIET AGENCY BORROWERS OR OBLIGORS A FAVORED POSITION ADDING, HOWEVER, THAT MOSCOW NARODNY IS ALSO IN BUSINESS TO MAKE MONEY.

2. IN TERMS OF THE SPECIFIC QUESTION IN REFTEL, ASSUMING A FIFTY MILLION DOLLAR LOAN WHICH WOULD NEED TO BE SYNDICATED, THE RATE WOULD BE PROBABLY AS FOLLOWS: WITH EQUAL SEMI-ANNUAL REPAYMENTS OF PRINCIPAL, AVERAGE LIFE WOULD BE IN THE RANGE OF 2-1/2 TO 3 YEARS. LIBR FOR EURODOLLARS FOR THIS MATURITY ON AUGUST 24 WAS 9-5/8. ON TOP OF THIS, BANKS INVOLVED WOULD PROBABLY CHARGE A SPREAD OF 3/4 TO 1-1/4 DEPENDING UPON WHICH AGENCY OF SOVIET GOVERNMENT WAS INVOLVED. LENDING TO AN AGENCY WOULD OBVIOUSLY COST MORE THAN LENDING TO THE BANK FOR FOREIGN TRADE DIRECTLY. THERE COULD BE A FLAT GUARANTEE FEE OF 1/4 PERCENT OF PRINCIPAL; A COMMITMENT FEE OF 0.5 TO 1.2 PERCENT; MOSCOW NARODNY BANK BOARD WOULD PROBABLY ATTEMPT TO WAIVE A NEGOTIATION FEE; THERE WOULD NOT BE ANY COMPENSATING BALANCES. IF LOAN IN QUESTION WERE SMALL, FROM FIVE TO TEN MILLION DOLLARS, MOSCOW NARODNY WOULD PROBABLY HANDLE IT THEMSELVES.

3. MESSRS. MAJOR AND RICHARDSON SAID MOST LENDING IN EURODOLLAR MARKET IS ON A SIX-MONTH ROLLOVER BASIS; WHEREAS THE RATE CHANGES, THE SET FEE IS STATIC. BASED ON AUGUST 24 LIBR, A FIVE-YEAR LOAN BASED ON SIX-MONTH LIMITED OFFICIAL USE
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ROLL-OVERS WOULD INITIALLY BE CHARGED ABOUT 11-1/2 PERCENT LIBR PLUS A 3/4 PERCENT MARGIN. A STRAIGHT FIVE-YEAR LOAN WITH NO AMORTIZATION (I.E., FULL TERM MONEY, COMPLETE REPAYMENT ON MATURITY) MIGHT PAY 9.5 PERCENT LIBR PLUS 1.5 PERCENT MARGIN. SOURCES FELT OF ALL OPTIONS CONSIDERED, SIX-MONTH ROLL-OVER IS THE MOST POPULAR AND OVER TIME (DEPENDING ON VIEW FUTURE INTEREST RATE LEVELS) POSSIBLY THE CHEAPEST.

4. MOSCOW NARODNY SAID IT COULD BE MORE RESPONSIVE TO

THE EXIM REQUEST IF A SPECIFIC AMOUNT AND THE AGENCY OF
THE SOVIET GOVERNMENT CONCERNED WERE IDENTIFIED.

5. SAME QUESTIONS RAISED WITH REPRESENTATIVES OF CHASE

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FM AMEMBASSY LONDON

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MANHATTAN BANK AND BANK OF AMERICA. MR. WENTWORTH, HEAD
OF CHASE'S MOSCOW BRANCH, IS CURRENTLY IN LONDON AND RE-
PLIED AS FOLLOWS: U.S. BANK LENDING IS NOT DONE DIRECTLY
WITH AN AGENCY OF THE SOVIET GOVERNMENT. BANK FOR
FOREIGN TRADE DOES ALL THE BORROWING. IN CURRENT SITUA-
TION, SPREAD WOULD BE BETWEEN 1/2 PERCENT AND 5/8 PERCENT
ABOVE LIBR ON A FIVE-YEAR TERM LOAN WITH EQUAL SEMI-
ANNUAL REPAYMENTS OF PRINCIPAL. ASSUMPTION IS THAT
AVERAGE MATURITY IS 2-1/2 YEARS. ON A FIVE-YEAR AVERAGE
MATURITY SPREAD ABOVE LIBR WOULD BE 5/8 TO 3/4 PERCENT.

6. WENTWORTH SAID THERE WOULD BE NO COMPENSATING BAL-
ANCES. LENDING BANKS MIGHT LIKE A COMMITMENT FEE BUT
DOUBTFUL IF ONE WOULD BE POSSIBLE ON SHORTER TERM
MATURITIES. IF LONG STANDBY WAS ENVISAGED, IT MIGHT BE
POSSIBLE TO CHARGE 1/4 PERCENT COMMITMENT FEE. IF LOAN
WERE FOR 10 TO 20 MILLION DOLLARS, BEING TAKEN ENTIRELY

BY LENDING BANK, THERE WOULD BE NO NEGOTIATING FEE. IF IT WERE SYNDICATED IN RANGE OF 60 TO 70 MILLION DOLLARS, THERE COULD BE A 1/2 PERCENT NEGOTIATING FEE. THERE IS NO GUARANTEE FEE. PRESUMABLY ULTIMATE RUSSIAN BORROWER WOULD BE PAYING THIS TO THE BANK FOR FOREIGN TRADE OR OTHER GUARANTEEING SOVIET INSTITUTION.

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7. WENTWORTH ADDED THAT IF THE OPERATION IS UNDER FIVE MILLION DOLLARS, SOVIETS GENERALLY PREFER TO PAY IN CASH.

8. MUCH OF ABOVE ECHOED BY CONTACT IN BANK OF AMERICA (BOA) WHO SAID THAT MOSCOW NARODNY LIKES TO OBTAIN A MARGIN OF 3/4 PERCENT. SOURCE INDICATED THAT SWISS BANKS IN LONDON HAVE BEEN ACTIVE, ALONG WITH MOSCOW NARODNY, IN SUPPLYING FUNDS. AFTER SURVEYING ITS CONTACTS, BOA JUDGED THERE HAS NOT BEEN MUCH ACTIVITY AMONG US AND UK BANKS ON THESE TYPES OF LOANS IN LONDON. AMONG BRITISH CLEARING BANKS, NATIONAL WESTMINSTER CONSIDERED MOST EXPERIENCED. BOA SOURCES SAID SEVENTY TO EIGHTY PERCENT OF NON-EXPORT CREDIT FINANCING DONE IN WEST GERMANY.

9. SOURCE AT MAJOR BRITISH CLEARING BANK ACTIVE IN LENDING TO SOVIET UNION SAID ALL ITS LENDING GOES THROUGH THE BANK FOR FOREIGN TRADE. IT DOES NOT DEAL DIRECTLY WITH AGENCIES AND WOULD NOT WANT TO. IN TERMS OF A GUARANTEE, IT CONSIDERS THAT DEALING WITH THE BANK FOR FOREIGN TRADE IS AS GOOD AS LENDING DIRECTLY TO THE SOVIET GOVERNMENT. IF IT WERE DEALING WITH A SPECIFIC AGENCY, IT WOULD REQUIRE THE GUARANTEE OF THE BANK FOR FOREIGN TRADE.

10. IN TODAY'S EURODOLLAR LENDING MARKET, BRITISH CLEARING BANK WOULD EXPECT TO OBTAIN A MARGIN OF 1/2 PERCENT ABOVE LIBR FOR THE FIRST THREE YEARS LENDING AND 5/8 PERCENT FOR THE FOURTH AND FIFTH YEARS. THERE IS SOME FLEXIBILITY IN THE MARKET AT PRESENT. SOME CLEARING BANKS MIGHT TAKE 1/4 PERCENT ON THE FIRST YEAR AND LOOK FOR 1/2 TO 3/4 PERCENT PER ANNUM ON THE BALANCE. GIVEN TODAY'S HIGH INTEREST RATES AND INFLATIONARY TRENDS, ALL BANKS ARE PRESSING HARD FOR AT LEAST A ONE-HALF PERCENT MINIMUM MARGIN.

11. CLEARING BANKS WOULD NOT EXPECT A NEGOTIATING FEE IF LENDING WERE BANK TO BANK. IF LENDING WERE ON A SYNDICATED BASIS, A FLAT 1/4 PERCENT NEGOTIATING FEE WOULD PROBABLY BE ADDED. BANKS WOULD HOPE FOR A COMMITMENT FEE ON THE UNDRAWN BALANCE, BUT QUOTE PROBABLY WOULDN'T BE

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THAT LUCKY UNQUOTE. GUARANTEE AS NOTED WOULD BE THE BANK FOR FOREIGN TRADE'S OWN INVOLVEMENT.

12. SOURCES CONSIDERED REQUEST FOR RATES ON OTHER CONVERTIBLE CURRENCY LOANS TO SOVIET AGENCIES IMPRACTICAL IN ABSENCE OF A SPECIFIC CURRENCY AND AMOUNT BEING IDENTIFIED. AS NOTED, THE U.S. AND BRITISH BANKS WOULD NOT BE LENDING TO AGENCIES, BUT RATHER TO BANK FOR FOREIGN TRADE. CLEARING BANK SOURCE SAID THE BANK FOR FOREIGN TRADE IN MOSCOW PROBABLY RECEIVES OVER 500 VISITS A YEAR FROM EUROPEAN BANKERS, WHO LEND TO SOVIETS IN ALL FORMS OF EURO CURRENCY. SOME OF THIS GOES THROUGH LONDON. MUCH DOES NOT. RATES CHARGED WOULD DEPEND ON INDIVIDUAL VIEWS OF POSSIBLE REVALUATIONS, DEVALUATIONS, (I.E., COMPARATIVE STRENGTHS OF INDIVIDUAL CURRENCIES) ANY COST OF FORWARD COVER, AND NATIONAL INTEREST RATES. ACCORDING SOURCE PRACTICALLY UNLIMITED MATRIX COULD BE CONSTRUCTED WHICH WOULD CHANGE DAILY.

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